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September 3, 2009

Susan Hudson
Vermont Public Service Board
112 State Street, Drawer 20
Montpelier, VT 05620-2701

Subject: Comments on Report and Recommendations of the Cost Analysis Subgroup Docket 7523 dated August 28, 2009

Dear Ms. Hudson,

Great Bay Hydro Corporation ("Great Bay") is the owner and operator of the Newport Hydroelectric generating facility on the Clyde River in Newport, Vermont. In addition, Great Bay is seeking to develop new renewable generating resources in the State of Vermont and is currently developing a new hydroelectric project in the Town of Charleston, Vermont. Great Bay participated in the development of the Report and Recommendations of the Cost Analysis Subgroup dated August 28, 2009 ("Cost Analysis Report").

The Cost Analysis Subgroup was charged with identifying and proposing tools and information sources to be relied upon in meeting the Board's obligation to determine whether the rates established in 30 VSA 8005 b.(2)(A) represent a "reasonable approximation" of "a generic cost, based on an economic analysis, for each category of generation technology that constitutes renewable energy." (30 VSA 8005 b.(2)(B)(ii)) In carrying out this charge, the Cost Analysis Subgroup developed a cost basis and a model in order to determine the prices that would be required to incent the development of specific renewable generation technologies (hydro, wind, solar PV, landfill gas and farm methane).

Two sets of input assumptions were used in developing estimates of the standard offer prices that would be required to incent the rapid development of renewable resources. One set, labeled "initial" reflected input assumptions provided by project developers that have direct knowledge of the costs to develop, construct and operate renewable energy projects. A second group of assumptions were provided by the Department of Public Service ("DPS") and included information gleaned from the Clean Energy Development Fund applications. Great Bay has identified several areas where it believes that the DPS has used assumptions that are not representative of the actual costs faced by developers of hydroelectric projects.

<u>Vermont Investment Tax Credit</u>

The Vermont Investment Tax Credit ("VT ITC") allows eligible entities to take 24 percent of the value of the Federal ITC as a credit against their Vermont taxes. The DPS indicated that it assumes owners of new renewable energy projects qualifying for the standard offer prices will be able to fully utilize the VT ITC. This assumption is flawed for three reasons. First, the credit is not available to an entity that files a corporate income tax return, which includes a number of developers of larger projects. Second, as Renewable Energy Vermont points out in its supplemental comments on the Cost Analysis Report, a sample 2 MW solar project would need over $300 million in revenues to fully take advantage of the VT ITC. Using REV's methodology, Great Bay has performed a similar calculation for the Cost Analysis Report's average hydroelectric project that generates approximately 5,000 MWh per year. Such a project would need to generate over $137 million (or approximately $27,500 per MWh) to fully utilize the VT ITC. These revenues and rates are simply unrealistic.

	Federal	State
Project Size (kW)	1,278	
$/kW	4,173	
Total Project Cost ($)	5,333,094	5,333,094
ITC Qualifying (% of Total Cost)	95%	95%
ITC Qualifying Amount ($)	5,066,439	5,066,439
ITC (%)	30%	30%
ITC Value ($)	1,519,932	1,519,932
Tax Rate	35.00%	8.50%
Required Taxable Income ($)	4,342,662	17,881,550
Profit Margin	13%	13%
Required Revenue ($)	33,405,094	137,550,388

Finally, the credit is not available if the project has opted to take a 30% US Treasury stimulus grant in lieu of the federal ITC. For these reasons, it is unreasonable to assume that hydroelectric and other renewable generating facilities will be able to fully utilize the VT ITC and the DPS' analysis should be adjusted.

<u>Clean Energy Development Fund Grants</u>

Great Bay disagrees with the DPS assumption that every project that is eligible for the standard offer price will apply for and receive the maximum $250,000 grant for the Vermont Clean Energy Development Fund ("CEDF "). Great Bay has applied for both a CEDF grant and a CEDF loan for its West Charleston project and has been denied both since the project was deemed to be likely to receive conventional financing. A representative of the CEDF Board that makes grant recommendations indicated that the grant represents "but for" funding for those projects that require economic support in addition to their contracted prices to move forward. In other words, relying on CEDF grants means that the least efficient projects will be encouraged since a project that is deemed to be financeable should not expect to receive a grant. While Great Bay cannot speak for other financeable renewable technologies such as biomass or wind, it is Great Bay's position that, given the past lack of availability of CEDF grants for hydroelectric projects, it is not reasonable to set rates for those projects assuming that they will receive the full CEDF grant. If the practice for awarding those grants were to change such that there is a guarantee that all projects applying for grants will receive the maximum amount, then the standard offer prices should reflect the value of the grant received by the project. If there is no such guarantee, then the standard offer prices should exclude such grant value.

Vermont Property Tax

Great Bay disagrees with the DPS assumption that property tax expense for renewable projects will decrease over time due to a decline in contract value and equipment depreciation. Unless the taxing entity's budget also declines, it is likely that should such declines in asset value occur, the applicable town tax rates would increase to maintain a stable level of tax income. Therefore, the property tax expense for renewable projects will at a minimum remain constant, and will likely increase by at least the inflation rate.

Standard Offer Price

The Cost Analysis Report contained the levelized standard offer prices under the Great Bay assumptions ($150/MWh) and under the DPS assumptions ($132/MWh). Both of these standard offer prices are higher than the interim standard offer price of $125/MWh established in the Cost Analysis Report. For the reasons stated above, Great Bay believes that the DPS estimate overstates the economic benefits of the CEDF grant and VT ITC to hydroelectric projects and as such, the rate established in 30 VSA 8005 b.(2)(A) does not represent a reasonable approximation of the price required to enable the development of hydroelectric projects. Therefore, the standard offer price for hydroelectric projects should be set at the technology specific price $150/MWh determined by the initial model runs in the Cost Analysis Report.

Respectfully submitted,

Anthony M. Callendrello
Vice-President, Great Bay Hydro Corporation